

January 29, 2024

COMMENT LETTER SUBMISSION

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American Institute of Certified Professional Accountants220 Leigh Farm Road
Durham, NC 27707**Re: PROPOSED CRITERIA FOR THE PRESENTATION OF THE SUFFICIENCY OF ASSETS FOR REDEMPTION (SPECIFIC TO ASSET-BACKED FIAT-PEGGED TOKENS)**

Circle Internet Financial, LLC (“**Circle**”) appreciates the opportunity to provide comments to the American Institute of Certified Public Accountants (“**AICPA**”) Assurance Services Executive Committee (“**ASEC**”) on the Exposure Draft published on December 1, 2023 regarding its proposed criteria for the presentation of the sufficiency of assets for redemption (specific to asset-backed fiat-pegged tokens).

Circle is a global financial infrastructure company that provides a payment system for the frictionless exchange of digital fiat currency through open, public blockchains and networks. Circle issues USDC, the largest U.S.-regulated tokenized cash payment stablecoin and EURC, a euro denominated tokenized cash payment stablecoin. A tokenized cash payment stablecoin is a tokenized form of cash that circulates on a public blockchain. Businesses, investors, and other market participants use payment stablecoins to transact frictionlessly on blockchains, including through the use of blockchain-based smart contract protocols.

Circle is responding to the request for comments by the AICPA in its capacity as an interested stakeholder who publishes monthly attestation reports that address the sufficiency of assets for redemption of USDC and EURC, both asset-backed fiat-pegged tokens which are currently prepared with reference to the New York Department of Financial Services “Guidance on the Issuance of U.S. Dollar-Backed Stablecoins”

Circle commends the AICPA for seeking to provide clarity and guidelines for token issuers through the Exposure Draft and is supportive of this initiative which is in alignment with Circle’s long standing commitment to transparency.

Circle’s comments have been authored with the following objectives in mind (as outlined in AICPA Exposure Draft, Introduction, pg 1) and responses have been drafted with reference to specific points of focus (FP’s).

1. Provide criteria for reporting on the sufficiency of cash, cash equivalents, or other assets for redeeming outstanding asset-backed fiat-pegged tokens in accordance with the token issuer’s terms at a specific measurement point in time to be used when reporting on the following:
 - a. The completeness and accuracy of a token issuer’s redeemable tokens outstanding and related disclosures.
 - b. The completeness and accuracy of the redemption assets available to redeem redeemable tokens outstanding and related disclosures.
 - c. The redemption assets are equal to or greater than the redeemable tokens outstanding and related disclosures.
2. Provide a common framework for the presentation of the sufficiency of assets for redemption specific to asset-backed tokens to reduce inconsistencies and incomparable information made available across token issuer reports.

AICPA PROPOSED DISCLOSURES:

1. **FP1:** *The redeemable tokens outstanding are disclosed, as defined by the token issuer's terms, as of the measurement point in time.*

- a. *Disclosure of the definition of the in-scope total natively minted token supply would include, as applicable,*

- i. *distributed ledger or blockchain networks.*

[Circle] This is reasonable and is likely to benefit both the issuer and report user. It allows the issuer to clarify which blockchains are in scope and which blockchains and associated activity are not in scope to avoid confusion when comparing token amounts from an issuer's report to public block explorers or third-party blockchain data websites. For example, bridged or wrapped tokens that were not issued from a token issuer's smart contracts are not related to native redeemable tokens of the token issuer and therefore appropriately considered out of scope for the criteria in management's assertion in Circle's report.

- ii. *smart contracts.*

[Circle] One of the fundamental steps of an independent accounting firm's procedures is to verify the tokens outstanding on each in-scope blockchain in aggregate, which provides assurance to the report user as to the completeness and accuracy of the aggregate balances provided. Circle believes disclosing the applicable smart contract addresses in its report is unnecessary to demonstrate the completeness and accuracy of tokens outstanding, creates additional administrative overhead for token issuers and increases the complexity of the issuer's report. However, Circle does believe smart contract information is important for a transparent ecosystem and has, therefore published the addresses from which USDC and EURC are issued on its website as a reference for interested parties.

- iii. *bridged and wrapped tokens.*

[Circle] Disclosure of tokens outstanding should be limited to natively issued tokens only as bridged and wrapped tokens are not redeemable by the issuer.

- b. *Amount of redeemable tokens outstanding for each in-scope distributed ledger or blockchain network, in accordance with the token issuers terms, is disclosed.*

[Circle] The report user's primary objective when reviewing an issuer's report is to ascertain the sufficiency of redemption assets to meet redemption requests for tokens outstanding in aggregate at a point in time, the underlying detail of which is already subject to both the issuer's detailed reconciliation and independent accounting firm review. The amount of tokens outstanding for each in-scope blockchain and the corresponding smart contract address, is a level of detail that is not necessary for the report user to gain assurance over the criteria while adding significant administrative overhead for preparers with tokens issued across numerous public blockchains (USDC is currently issued across 15 blockchains). Moreover, this disclosure provides limited benefit to the report user while also increasing both the complexity and length of the issuer's report.

- c. *Material differences between the total natively minted token supply and redeemable tokens outstanding are disclosed.*

[Circle] Circle is supportive of providing insight to the report user on the explanation of differences between token supply and tokens outstanding and provides such disclosure in the criteria of its current report. In certain instances provided in the exposure draft, Circle believes disclosure may not be necessary due to the existing definition of particular terms used in Circle's current report. In the case of blacklisted tokens, Circle has taken the approach of excluding both its equivalent of blacklisted tokens ('Access Denied tokens') and associated assets from the report definitions of 'USDC in Circulation' and 'Reserve Assets' respectively.

By excluding both Access Denied tokens and associated redeemable assets consistently, Circle believes no further reconciliation or disclosure is necessary. If a blacklisting event was ever reversed, the associated tokens and assets would then return to the scope of Management's assertion.

- d. *Disclosure is made of any known unresolved events or occurrences that may materially affect the natively minted token supply or redeemable tokens outstanding, at the measurement point in time, related to*
 - i. *the distributed ledgers or blockchain networks (including the consensus and security mechanisms).*
 - ii. *smart contracts used to issue and manage token operations (that is, in- scope smart contracts).*

[Circle] Circle views this proposed disclosure as subjective and open to a notable amount of judgment. Determining which occurrences are material or merit disclosure on distributed ledgers that are operating on a 24/7 basis could lead to significant discrepancies between issuers' reports, which goes against one of the objectives outlined in the exposure draft to reduce inconsistencies and incomparable information.

A mature token issuer would also be expected to have robust blockchain readiness risk assessments and smart contract code assessments as a standard part of their new blockchain launch criteria that would appropriately identify and mitigate these risks before a decision is taken to issue their token on a new blockchain.

2. **FP2:** *Token issuer's terms for purchases and redemptions are disclosed.*

- a. *The following are disclosed:*
 - i. *Established terms for token purchases and redemptions*
 - ii. *Definition of purchase and redemption rights (including which holders have such rights)*

[Circle] Circle believes detailed terms and conditions should not be included in the issuer's report. Such terms should be made available to token holders through other more traditional means, via the issuer's website, upon account set-up directly with the issuer or with other third parties offering market-making or trading services. Including them in issuer's reports does not address the sufficiency of the assets for redemption and does not encapsulate all conditions for mediums through which a token holder may acquire or transact with an issuer's token.

- b. *The amounts of unprocessed purchase and redemption requests, at the measurement point in time, are disclosed.*

[Circle] Regulatory requirements related to redemption timing are evolving and vary by jurisdiction. By way of example, the Monetary Authority of Singapore requires processing within T+5 business days beginning on the date of request¹ while the New York Department of Financial Services in its 2022 "Guidance on the Issuance of U.S. Dollar-Backed Stablecoins" provides a default assumption of fulfilling redemption requests not more than two full business days (T+2) beginning the day after a request (and only upon successful onboarding of the holder).² As such, a disclosure requiring the summary of any outstanding purchase and redemption requests by jurisdiction and further highlighting which, if any, are not in accordance with relevant legal terms or regulatory requirements would create significant administrative overhead for issuers preparing reports.

¹ Monetary Authority of Singapore; Response to Public Consultation on Proposed Regulatory Approach for Stablecoin-related Activities; [August 15, 2023](#); Section 4.1.

² New York Department of Financial Services; *Guidance on the Issuance of U.S. Dollar-Backed Stablecoins*; [June 8, 2022](#); Section 1(b)ii.

Additionally, there are a number of examples that may impact timeliness of redemptions that are out of the control of the token issuer, e.g. settlement timing lag for redemption payments involving cross border or correspondent banks and returned wires due to incomplete or inaccurate banking information provided by the customer. Due to these considerations, Circle believes that a reconciliation should be performed that highlights net timing and settlement differences in aggregate with a footnote adequately describing the nature of timing and settlement differences (including appropriate description of material items).

3. **FP3:** *Disclosures related to the counterparties holding redemption assets include*

a. *type of counterparty*

[Circle] Banking counterparties often express concern with the direct mention of their institution in the issuer's report due to their own regulatory or commercial considerations. Moreover, disclosure of specific banking counterparties is not typical in public financial reporting or other disclosure for banks or other money service businesses.

Disclosure of the counterparty type such as bank or custodian may be helpful to the report user to give insight into the safety and soundness of redemption assets.

b. *the jurisdiction (regulatory or geographic) of the counterparty.*

[Circle] Disclosure of regulatory or geographic information may result in inconsistency as the jurisdiction of a counterparty's primary regulator may differ from where the redemption assets are actually held. This is particularly the case for global stablecoins with local liquidity requirements where dollars are held with correspondent banks in the U.S. For example, any non-U.S. global bank headquartered in one country (i.e., the primary regulator) would be required to hold dollars at a U.S. based correspondent bank. In such cases, disclosing counterparty regulation could inaccurately imply regulation of redemption assets in the jurisdiction of the primary regulator.

4. **FP4:** *Disclosures related to the counterparties holding redemption assets include the following:*

- a. *Description of the composition of redemption assets by asset type (such as cash and cash equivalents [including U.S. Treasuries], money market funds, repurchase agreements, and other investments), including, as applicable*
- i. *value and*
 - ii. *maturity dates*

[Circle] Circle is in agreement that a minimum level of detail over the composition of redemption assets should be required of token issuers. Asset type and maturity dates (if applicable) will provide the stablecoin holder with insight into the risk and liquidity of redemption assets. CUSIP detail, where applicable, allows the report user to research additional information about the underlying assets where necessary.

- b. *Description of the method used to measure the value of redemption assets by asset class, in accordance with the issuer's terms, including*
- i. *cash and cash equivalents,*
 - ii. *money market funds,*
 - iii. *repurchase agreements, and*
 - iv. *other investments*

[Circle] Circle is in agreement that token issuers should disclose how each asset category is valued with appropriate reference to valuation guidance from relevant accounting standards. For assets that are exposed to market volatility, relevant fair value principles from ASC 820 should be followed and unrealized gain or loss positions should be reflected to provide insight into the realizable value of redemption assets as of the measurement point in time.

With regard to repurchase agreements, Circle does not believe the underlying collateral details of those agreements warrant disclosure. It is our experience that collateral information is not always readily available and such information would significantly increase the size and complexity of the issuer's report. General footnote disclosure of the terms of repurchase agreements and associated collateral are reasonable and convey an understanding of the risks and associated mitigating factors.

5. **FP5:** *Disclosures regarding the redemption asset arrangements include:*

- a. *the nature of the arrangement between the token issuer and the counterparty (such as the token issuer's rights to the redemption assets).*
- b. *the value of the redemption assets subject to each type of arrangement.*
- c. *any restrictions on the use of the redemption assets.*

[Circle] Circle generally agrees the availability and any restrictions on the use of redemption assets should be disclosed (e.g., restrictions on sale, gates, or other limits). Circle believes it is reasonable and sufficient to include criteria that redemption assets are held in segregated accounts on behalf of stablecoin holders and segregated from corporate assets in the report. Circle will consider adding to its existing disclosures to explicitly state its stablecoins are redeemable 1:1 with the relevant fiat currency in accordance with relevant regulatory and legal requirements.

6. **FP6:** *Disclosures regarding the token issuer's mechanisms, if any, to mitigate risk of loss of redemption assets include the following:*

- a. *Nature and extent of insurance coverage maintained by the token issuer, as applicable, including*
 - i. *name of institution,*
 - ii. *type of insurance arrangement,*
 - iii. *dollar amount of coverage, and*
 - iv. *whether or not the insurance passes through to cover redemption assets, redeemable by individual token holders*

[Circle] Circle respectfully requests the AICPA to consider the purpose of FP6 and whether in practice it would achieve the overall objectives of the Exposure Draft. Given the subjectivity and judgment required to assess the ability of insurance to effectively mitigate the risk of loss related to redemption assets and the general lack of applicability or pass through of insurance for token holders, disclosures related to insurance may prove to be misleading for report users. Similar to fractional reserve banks, it is not reasonably nor economically possible for fiat-backed token issuers to mitigate risk of loss entirely through traditional means like insurance. Assuming the token issuer is holding redemption assets in low risk, highly liquid investments in accordance with relevant regulatory guidelines for token issuance, the associated financial risks are materially lower from a token holder's perspective relative to deposit holders at fractional reserve banks.

7. **FP7:** *Disclosure of comparison of available redemption assets to redeemable tokens outstanding is complete and accurate.*
- a. *Disclosures of the value of available redemption assets and the redeemable tokens outstanding, including any surplus or deficit, are complete and accurate and include*
 - i. *differences between the total redemption assets and total redeemable tokens outstanding.*

[Circle] A separate and detailed disclosure to highlight the nature of timing differences is subjective and open to judgment on the issuer and independent accounting firms part. This could create significant discrepancies between token issuers' reports, running counter to one of the objectives outlined in the exposure draft to reduce inconsistencies and incomparable information.

Circle views an aggregate disclosure of timing and settlement differences to be sufficient, especially if the disclosures addressed in FP8, which require the issuer to separately disclose any material events which affect the redeemability of tokens outstanding, are required. An aggregate view of timing differences would also avoid unnecessarily adding length and complexity to the report.

Bifurcating timing differences, at an aggregate level, between temporary and permanent is reasonable.

- b. *Disclosures of redemption asset requirements, if relevant, are complete and accurate and include:*
 - i. *whether the asset-backing level is in accordance with the token issuer's terms.*

[Circle] Circle issued stablecoins are redeemable 1:1, so this additional disclosure is not applicable. However, Circle will consider adding to its existing disclosures to explicitly state its stablecoins are redeemable 1:1 with the relevant fiat currency.

8. **FP8:** *Material disclosures related to the redeemable tokens outstanding, their redeemability, and available redemption assets are complete and accurate.*

[Circle] Notwithstanding the specific response to FP3 above related disclosures for counterparties, Circle is aligned with the proposed disclosures outlined in FP8 (a). through (e).

With reference to the specific list of questions found on pg. 3 of the exposure draft, Circle would like to highlight the following additional areas for consideration.

Are there any missing criteria or points of focus (for example, common relevant token issuer's terms that are not addressed in the document)? Please provide a list and explain the rationale.

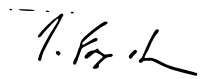
[Circle] The exposure draft framework laid out by the AICPA is an important first step in providing a consistent disclosure framework for token issuers. Given the rapidly evolving regulatory landscape for global stablecoin legislation with a potential for further fragmentation of reserve and disclosure standards, it will be necessary to continue to monitor developments and ensure consistency with the overall objectives the AICPA seeks to address and to ensure alignment with forthcoming statutory or regulatory requirements on reserving and disclosures. Two examples to consider in this regard are:

1. Evolving global stablecoin regulations may require multi-jurisdictional issuance for a token with localized reserve management requirements, this could potentially require a consolidated and/or localized reports and further breakdown and disclosure of the legal entities involved with issuance.
2. The U.S. government is currently evaluating legislation and regulatory treatment for U.S. stablecoins that will very likely include reserve management and disclosure standards which may federally mandate particular disclosures that are in conflict with the AICPA exposure draft.

Is additional guidance required to apply the concept of materiality related to the subject matter?

[Circle] The concept of materiality is subjective, what constitutes a material event or reconciling item warranting disclosure should be agreed between the independent accounting firm and token issuer with reference to existing standards for attestation engagements.

Sincerely,



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